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SUBJECT: EAST KAZAKHSTAN: AT THE CROSSROADS

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¶11. (U) Sensitive but unclassified. Not for public Internet.

¶12. (SBU) SUMMARY: On August 20, the Ambassador visited Oskemen (Ust-Kamenogorsk), East Kazakhstan, an industrial region well-endowed with natural resources and populated by blue-collar miners, shady businessmen, political patrons, and innovative entrepreneurs. The local economy depends, as it has for more than two hundred years, on mining gold, copper, zinc, and coal. The region has successfully leveraged its strategic location at the crossroads of Eurasia, attracting tourists and investors from neighboring China and Russia, while simultaneously pursuing lucrative business deals with Western partners. END SUMMARY.

MAKING MONEY FROM MINERALS

¶13. (SBU) More than one million people live in the region of East Kazakhstan, including the 300,000 residents of Oskemen (Ust-Kamenogorsk), of whom more than 40 percent are ethnic Russians, according to the Statistics Department of East Kazakhstan Oblast. The largest companies in the region are the Ulba Metallurgical Plant (owned by national nuclear energy company Kazatomprom), Kazzinc (owned by Glencore International AG, which was founded by American financier Marc Rich and is one of the world's largest suppliers of commodities and raw materials), the Ust-Kamenogorsk Titanium-Magnesium Plant (owned by Specialty Metals Company, based in Brussels), and VostokMashZavod, a machine-building plant owned by private investors.

¶14. (SBU) East Kazakhstan contributes six percent of Kazakhstan's gross domestic product, placing it on a par with the oil rich region of Mangistau. Oskemen is a tough town defined primarily by its mining industry and blue-collar culture. The region is open for business -- if you are an insider, or have a special relationship

with an insider. Otherwise, even the most prominent outsiders are targets, as the new Akim (governor) Berdybek Saparbayev discovered in March, when he was publicly accused of corruption shortly after taking office (reftel C).

POLITICAL PATRONAGE

¶ 15. (SBU) The local government is at the center of all economic activity in East Kazakhstan, directly or indirectly. Saparbayev dispenses patronage generously -- by ordering a fleet of cars for his administration from the local auto assembly plant, for example -- and projects a caring attitude toward "his" people. He has tried to repair his image by supporting tuberculosis treatment initiatives, and helping local orphanages with cash donations, vocational training and job skills programs. In return, he expects -- and receives -- political and financial support. For example, when no commercial flights were available to take the governor, or Akim, to Astana immediately after his meeting with the Ambassador, the Akim commandeered a private jet from Kazzinc, the country's largest zinc mining company, and a leader in lead, copper, gold, and silver mining.

KAZAKHSTANI PRODUCER OF CADILLACS EAGER FOR CUSTOMS UNION

¶ 16. (SBU) Asia Avto, owned by a subsidiary of Russia's Avtovaz, assembles the Chevrolet Lacetti, Epica, and Captiva cars, and has produced sample units of the Cadillac Escalade, Cadillac CTS, and Hummer H2 and H3 vehicles in East Kazakhstan. Asia Avto presented President Nazarbayev with a Cadillac Escalade when he toured the plant on June 15. The Akim has provided land and other in-kind contributions to Asia Avto valued at \$25 million and plans to order 7,000 cars for the local government's fleet.

¶ 17. (SBU) According to Asia Avto General Director Yerzhan Mandiyev, communication with the European leadership of General Motors (GM)

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has been difficult since the company's bankruptcy. Mandiyev is pushing GM to authorize full-scale production of the Escalade and CTS lines, and to lower the retail price of these vehicles to make them more competitive. He also asked the Ambassador to help persuade U.S. companies in the region to buy "American" cars made in Kazakhstan. Mandiyev speaks English, has visited Detroit three times, and focused on quality assurance during a tour of the factory floor on August 19. Mandiyev said he is eager for Kazakhstan to join the Customs Union with Russia and Belarus, which he said would raise import duties on used automobiles to 25 percent in 2011. Mandiyev said that Asia Avto will be able to produce 120,000 cars by 2011, yet, according to Interfax, the company made just 281 vehicles during the first half of 2009, compared to 2,114 vehicles made during the same period last year. Interfax noted that Asia Avto reported a net loss of 560 million tenge (\$3.73 million) in the first six months of 2009, on assets of 8.2 billion tenge (\$54.8 million).

WORLD'S LARGEST URANIUM PLANT

¶ 18. (SBU) The Ulba Metallurgical Plant, commissioned on October 29, 1949, processes waste materials containing uranium (scraps and ashes), including 27 percent U-235, which is supplied to the United States as uranium dioxide powder, and 5 percent U-235 fuel pellets supplied to Russia. The plant also manufactures products containing tantalum, niobium, and beryllium. It is the world's largest processor of uranium products, the second largest processor of beryllium products, and the third largest processor of tantalum and niobium products. On May 22, the plant's director, Nurlan Mussin, was arrested in connection with the government's investigation of KAP president Mukhtar Dzhakishev on corruption charges.

¶ 19. (SBU) On August 19, Energy Officer toured Ulba's tantalum processing unit. (NOTE: Tantalum powder is used in the production of capacitors and high-power resistors used in cell phones and other electronic devices. END NOTE). The four senior plant managers giving the tour were all ethnic Russians, spoke English, and had been to the United States several times, including business trips to Washington, New York, and San Francisco. This small unit has

designed, developed, and implemented customized, high-technology solutions to tantalum production, and is now one of only four tantalum powder manufacturers in the world.

¶10. (SBU) Ulba's Deputy Director for Marketing and Strategy, Alexander Gagarin, asked for information about a bankrupt U.S. company, Applied Materials Science, that allegedly did not honor the terms of its contract and still owes Ulba \$300,000. Gagarin said his company was more concerned about the reputational risk of the failed transaction, and potential "dual use" violations by the U.S. company, than about losing the money. (NOTE: On August 12, the Department of Commerce (DOC) discussed the issue with the Embassy of Kazakhstan in Washington, D.C. DOC subsequently briefed the Bureau of Industry and Security (BIS) on the issue and delivered a copy of a non-paper from the government of Kazakhstan. END NOTE.)

RETIRED FINANCIAL POLICE DIRECTOR OPENS POSH HOTEL

¶11. (SBU) Vladimor Yelovikov, the proud and gregarious owner of the Shiny River Hotel, "the best hotel in town," told the Ambassador he retired recently, after 40 years in the police force, including several years as director of East Kazakhstan's financial police. His business card glitters like gold and his colorful personality is more like a used car salesman than a director of the financial police. Yelovikov also claimed to be a former Special Forces soldier and Afghanistan war veteran. Yelovikov has a daughter in St. Augustine, Florida, but has not travelled to the United States himself. He has a similar hotel in Bulgaria, where he lived for two years. (COMMENT: The audacity of a financial police director who has enough money saved to buy two hotels upon retirement speaks for itself. END COMMENT).

¶12. (SBU) COMMENT: The region of East Kazakhstan is an excellent

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example of the country's ability to maintain a strong relationship with neighboring Russia and China, while at the same time pursuing closer business and cultural ties with American partners. For example, the region annually attracts thousands of tourists from Russia, eagerly awaits completion of the World Bank-funded road to China, actively advocates study-abroad programs in the United States, and contains power plants managed by U.S. power company AES.

East Kazakhstan is literally at the crossroads of Eurasia, and typifies the economic aspects of Kazakhstan's pragmatic, "multi-vector" foreign policy. END COMMENT.

HOAGLAND